



INVESTING IN IOWA'S WATER

INTENDED USE PLANS

Clean Water and Drinking Water State Revolving Fund Programs

State Fiscal Year 2011 (July 1, 2010 – June 30, 2011)

**Iowa Department of Natural Resources
Iowa Finance Authority**

Approved by the Environmental Protection Commission June 16, 2010





INTRODUCTION

The Iowa SRF (State Revolving Fund) is Iowa's primary funding source for drinking water and wastewater infrastructure, as well as projects addressing storm water quality and nonpoint source pollution. The Iowa SRF continues to grow and expand its role as the best choice for financing water quality and protection of public health. Since 1989, the Iowa SRF has loaned more than \$1 billion.

The Iowa SRF is operated through a unique partnership between the Department of Natural Resources (DNR) and the Iowa Finance Authority (IFA). DNR administers the environmental and permitting aspects of the programs, with IFA providing financial assistance including loan approval and disbursements. There are two separate funds: the Clean Water SRF, which finances water quality projects; and the Drinking Water SRF, which finances drinking water system upgrades to provide safe drinking water.

Recent actions at the federal level have initiated major changes in the SRF programs. New requirements have been attached to increases in funding.

During state fiscal year (SFY) 2010, Iowa received funds through the American Recovery and Reinvestment Act (ARRA), the federal stimulus bill. Seventy-nine projects received \$77 million in ARRA funds, including from 20% to 50% of the loan amount in principal forgiveness. These included "green" projects, which implemented green storm water practices, water efficiency, energy efficiency, and other innovative projects, as well as traditional water and wastewater infrastructure improvements. The ARRA funds were supplemented with base SRF program dollars to initiate a total of \$155 million in water quality and public health protection.

Along with the requirements to fund green projects and provide loan forgiveness, the ARRA funds also included Davis-Bacon prevailing wage rates and Buy American.

With the exception of Buy American, these requirements were continued by Congress by attaching them to the federal fiscal year (FFY) 2010 appropriations. Out of the \$50 million the DWSRF and the CWSRF will receive in capitalization grants, at least 20% must be used for green projects, and a portion must be used for additional subsidization.

The way that the Davis-Bacon requirement was addressed in the 2010 appropriations bill created controversy and disagreement between the U.S. EPA and the state SRF programs. The bill stated that the requirements applied to projects carried out "with assistance made available" by the SRF. EPA interpreted this to apply to all SRF funds, not just the amount of the 2010 capitalization grant. Although states have challenged this interpretation, from November 1, 2009 through September 30, 2010, Iowa is complying with EPA's guidance to require Davis-Bacon for all SRF loans.

While the ARRA funds and the 2010 appropriations were one-time sources, Congress is working on reauthorization bills that may make green projects, additional subsidization, and Davis-Bacon permanent features of the SRF.

The new provisions, different requirements for different “pots” of money, and uncertainty about the future have made planning for the SRF programs more difficult. The SFY 2011 Intended Use Plans reflect efforts to adjust to this new environment and to provide as much clarity and stability as possible for the programs’ users.



An additional state source of water and wastewater funding is being provided through the IJOBS program and connected to SRF. Grants for communities’ projects are tied to SRF eligibility and all grantees must also receive an SRF loan. Twenty million dollars was set aside for communities over 10,000 population. Three grants, to Clinton, Davenport, and Sioux City, were made in February 2010. The applications for \$35 million worth of grants to communities under 10,000 population were due March 30, 2010 with awards to be made in June 2010.

The Base SRF Programs

The following section describes the current operation of the regular, or base, SRF programs. An additional \$50 million in FFY 2010 funding will become available as a subset of the Clean Water and Drinking Water SRF programs, with different guidelines and requirements. These funds will be discussed in the next section.

In the base SRF programs, there are three types of loans available to help cities, public water supplies, counties, sanitary districts, or utility management organizations upgrade their water and wastewater systems.

- Planning and design (P&D) loans are provided at 0% interest for up to three years to cover the costs of preparing facility plans and project specifications. The loans will be rolled into SRF construction loans or repaid by another source of permanent financing. Many facilities are using P&D loans to prepare for applying for grants and other financing as well as for SRF loans.
- Construction loans are offered at 3% interest. Loan terms can extend to 30 years based on the average useful life of the project, and, for drinking water projects, the disadvantaged status of the applicant.
- Source water protection loans are offered at 0% interest. These loans can help public water supplies acquire land and conservation easements or fund practices in their wellhead or source water protection areas.

SRF loans can be used in conjunction with other programs, and many SRF projects are co-funded with Community Development Block Grants, IFA wastewater assistance grants, or federal grants.

While there are certain requirements associated with federal funds, the savings for most communities will outweigh these other factors in deciding how to finance projects. In addition, SRF staff provides assistance to borrowers to address these requirements.

The SRF also helps Iowans address nonpoint source water quality problems. Through four targeted programs, loans are facilitated by participating lenders throughout the state.

- The On-Site Wastewater Systems Assistance Program (OSWAP), providing loans to rural homeowners to replace inadequate septic systems. New systems are certified by county sanitarians.
- The Local Water Protection (LWP) Program, addressing soil, sediment, and nutrient control practices on agricultural land. The Iowa Department of Agriculture and Land Stewardship,

Division of Soil Conservation, operates the program through local Soil and Water Conservation Districts.

- The Livestock Water Quality Facilities (LWQ) Program, assisting livestock producers with manure management plans, structures, and equipment. Facilities with 1,000 animal unit capacity or under are eligible. The Iowa Department of Agriculture and Land Stewardship, Division of Soil Conservation, operates the program through local Soil and Water Conservation Districts.
- The General Nonpoint Source (GNS) Program, for a wide variety of other water quality protection efforts. The program is coordinated by DNR and projects include habitat and wetland restoration, urban storm water management, landfill closure, lake restoration, and watershed planning.

In the base SRF programs, funding can only be used for loans, not for grants. The diagram shows the sources and uses and how the funds revolve. The funds are capitalized by federal grants and state bonds required for a 20% match. Bonds can also be issued to generate additional loan funds, “leveraging” the capacity of the SRF.



When loans are made, all loan repayments and interest income must go back into the loan funds. In this way, the funds truly revolve and grow in their capacity to meet water quality and drinking water needs into the future.

FFY 2010 Funding

On October 31, 2009, Congress passed the FFY 2010 appropriations bill. Iowa’s CWSRF will receive \$27.6 million, and the DWSRF will receive \$23.2 million. The appropriations language included new requirements, including several that were carried over from the American Recovery and Reinvestment Act (ARRA) federal stimulus.

For the CWSRF:

- A minimum of \$4,129,860 (14.97%) must be used for “additional subsidization” in the form of grants, loan forgiveness, or negative interest loans. Iowa’s mechanism for complying is to use loan forgiveness for disadvantaged communities. The maximum amount that can be used is \$13,766,200 (49.92%)

- At least 20% of the dollars (\$5,515,000) must be used for “green” projects, defined by Congress to include water and energy efficiency, green storm water infrastructure, and other environmentally innovative efforts.

For the DWSRF,

- At least 30% of the dollars (\$6,950,700) must be used for “additional subsidization” in the form of grants, loan forgiveness, or negative interest loans. Iowa’s mechanism for complying is to use loan forgiveness for disadvantaged communities.
- At least 20% of the dollars (\$4,633,800) must be used for “green” projects, defined by Congress to include water and energy efficiency, green storm water infrastructure, and other environmentally innovative efforts.

Under EPA guidance issued on November 30, 2009, Davis-Bacon prevailing wage rates apply to projects funded with SRF loans between November 1, 2009 and September 30, 2010.

Iowa will not be able to apply for or use the FFY 2010 capitalization grant until Intended Use Plans (IUPs) are approved by the U.S. EPA. These IUPs must include lists of green and infrastructure projects to which the 2010 funding will be applied, including any additional subsidization. Iowa will use a process similar to what was used for the ARRA funding. We will solicit new green projects, and evaluate infrastructure projects for readiness and disadvantaged status. As of this writing, EPA had not issued final guidance on green projects, and we cannot solicit green projects until the guidance is clear. We anticipate being able to publish updated IUPs in the spring of 2011.

Summary

Several factors are creating greater needs for investment in public health and environmental protection: Higher regulatory standards, aging infrastructure, and increased emphasis on environmental protection. The State Revolving Fund continues to be an essential tool for meeting these funding challenges.

The financial capacity of the Iowa SRF is continually analyzed. Using relatively conservative assumptions, it is projected that the Clean Water SRF could loan an average of \$200 million per year over the next 10 years, or a total of \$2 billion. The Drinking Water SRF has the capacity to generate an average of \$100 million for loans per year. If demand outstrips capacity, projects will be prioritized to ensure that SRF loans go to projects with the highest value for public health and environmental protection.

The attached Intended Use Plans (IUPs) outline goals and strategies to be used in managing the Iowa SRF programs during fiscal year 2011. The IUPs will continue to be amended quarterly, with projects added and funding amounts adjusted as needed. In particular, policies and project lists to meet the special conditions of the FFY 2010 appropriations will be added to IUP updates in spring 2011.



CLEAN WATER STATE REVOLVING FUND INTENDED USE PLAN

**State Fiscal Year 2011
July 1, 2010 – June 30, 2011**

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CLEAN WATER STATE REVOLVING FUND INTENDED USE PLAN

State Fiscal Year 2011
July 1, 2010 – June 30, 2011

I. INTRODUCTION

The Clean Water State Revolving Fund (CWSRF) is Iowa's primary tool for funding water quality improvements. Since 1989, the Iowa CWSRF has committed more than \$900 million in below-market rate loans to meet Iowa's wastewater infrastructure needs. In addition, since 2003, the program has financed more than \$82 million to address nonpoint source pollution.

This Intended Use Plan (IUP) outlines progress made to date and plans for operating and managing the CWSRF during State Fiscal Year 2011.

II. STATE FISCAL YEAR 2011 PLAN OF ACTION

The plan is based on anticipated use of new and revolved funds available in the CWSRF for funding water quality protection needs, including both publicly owned wastewater and storm water facilities, and nonpoint source water protection projects.

The CWSRF loan program consists of two main program areas. First, the purchase of debt obligations for wastewater and storm water projects is provided through the CWSRF to publicly owned facilities. Second, direct loans or linked deposit financing approaches address nonpoint source programs.

The SFY 2011 Plan of Action covers the following areas:

- CWSRF goals and objectives;
- Current and projected financial capacity of the CWSRF;
- Financial management strategies;
- Plan for the SFY 2011 project priority list;
- Plan for nonpoint source set-asides; and
- Plan for use of administrative accounts.

CWSRF Goals and Objectives

The primary long-term goal of the Iowa CWSRF is to protect the environment and public health and welfare through a perpetual financial assistance program. The SFY 2011 short-term goals and objectives are as follows:

- **Goal:** Develop a list of green projects for FFY 2010 capitalization grant funding. **Objectives:** *During SFY 2011, SRF staff will solicit energy efficiency, water efficiency, green storm water*

infrastructure, or other environmentally innovative projects. Staff will review projects for eligibility and assist in the development of business cases as needed. Staff will determine amount of additional subsidization to be applied to green projects.

- **Goal:** Identify projects to which to apply additional subsidization available in FFY 2010 capitalization grant funding. **Objective:** *During SFY 2011 SRF staff will evaluate projects for readiness and disadvantaged community status.*
- **Goal:** Assist in readying SRF projects for IJOBS grant funding. **Objective:** *Projects receiving state IJOBS grants must be eligible for and receive an SRF loan. We will work with the IJOBS program to take projects through the SRF process for funding readiness.*
- **Goal:** Provide financial assistance that is lower cost than private financing options while assuring the perpetual nature of the program. **Objectives:** *During SFY 2011, criteria in program rules will be used to set interest rates in the IUP. Those criteria include the cost of funds to the SRF, availability of other SRF funds, prevailing market interest rates of comparable non-SRF loans, and long-term SRF viability. SRF staff will coordinate efforts with other funders such as the Community Development Block Grant program. During SFY 2011 SRF staff will continue to educate and inform communities and consultants on the financial savings available by using the CWSRF.*
- **Goal:** Apply program requirements that are simple and understandable and do not add unnecessary burdens to applicants or recipients. **Objectives:** *During SFY 2011 SRF staff will continue to assist applicants with completing the federal cross-cutting requirements for environmental and historical review. Staff will also assist borrowers with Davis-Bacon compliance.*
- **Goal:** Continue the option of extended financing terms for CWSRF infrastructure projects. **Objective:** *During SFY 2011 this option will be offered to current and new projects on the project priority list.*
- **Goal:** Maintain mechanisms for funding the on-going administration of the program if federal funding is reduced or eliminated. **Objective:** *During SFY 2011 initiation and servicing fees will be collected on CWSRF loans for deposit to administrative accounts. SRF staff will develop short and long-term plans for administrative budgets.*
- **Goal:** Commit loan funds to fully fund as many recipients as possible in accordance with the state priority rating system, the IUP, staff resources, and available funding, in order to assist in the construction of projects with the highest water quality impacts. **Objective:** *During SFY 2011, quarterly updates to the IUP will be prepared to add projects and update program financial information.*
- **Goal:** Manage the CWSRF to maximize its use and impact through sound financial management. **Objective:** *During SFY 2011 SRF staff and financial advisors will continue to conduct financial analysis and develop innovative approaches to financial management.*
- **Goal:** Implement programs that effectively address water quality needs and target appropriate audiences. **Objective:** *During SFY 2011 SRF staff will continue to use research findings to develop and implement a cooperative marketing plan, provide customer education, and develop program innovations to meet customer needs.*

Current and Projected Financial Capacity of the CWSRF

Appendix A, the Estimated Sources and Uses table, shows that funds are obtainable to fund current requests as of April 2010. The Iowa CWSRF program uses its equity fund to originate loans. When a sufficient number of loans have been made, the SRF program issues bonds, backed by those CWSRF loans, and uses the bond proceeds to replenish the equity fund. The SRF program issued bonds in December 2009 to reimburse the equity fund as well as for the FFY 2009 and 2010 state match.

The leveraging capacity of the CWSRF is robust due to the maturity of the fund and the current loan portfolio. SRF staff have analyzed the future financial capacity of the CWSRF in light of the discussion over water quality standards and other future wastewater needs. Using relatively conservative assumptions, it is projected that the CWSRF could loan an average of \$200 million per year over the next 10 years, or a total of \$2 billion.

Financial Management Strategies

Charts 1, 2, and 3 (attached) show total loan requests and administrative set-asides of \$748 million. This includes \$709 million in loan requests for wastewater projects. Because many of these projects are in the planning phase, they are not expected to sign a binding loan commitment during this fiscal year. The projected timing and demand for loan draws is reflected in the sources and uses table (Appendix A). The project list also includes \$29.5 million for nonpoint source set-asides, and \$3.2 million for ongoing program administration.

The sources of funds for this IUP include federal capitalization grant funds available to Iowa for Federal Fiscal Year (FFY) 2010. The state match for part of the FFY 2009 capitalization grant was provided through a bond issue in December 2008. At the time of the bond issue, the total amount of the FFY 09 cap grant was unknown. The balance of the FFY 2009 capitalization grant, \$5,697,000, was matched with \$1,139,000 in state match through a bond issue in December 2009. This bond issue also included state match for the FFY 2010 cap grant. The amount of state match is \$5,515,000 million based on an FFY 2010 grant of \$27,575,000 million. Iowa's SRF uses the "group of projects" method for drawing federal capitalization grant funds.

SFY 2011 Project Priority List

The management of the CWSRF program includes a priority list of projects for loan assistance, which has been developed according to DNR rules 567 IAC 92 (455B). With the available CWSRF funds, this IUP provides a projection of loan funding assistance for applications in priority order determined by point source rating criteria defined in 567 IAC 91 (455B). This priority list may be amended on a quarterly basis as needed during SFY 2010. Chart 1 (attached) constitutes the project priority list.

The priority list has two major categories of projects: fundable and contingency. Fundable projects are defined as those that are following the wastewater construction permitting process and are making substantial progress toward fulfilling the permitting and SRF requirements. Contingency projects are those that have not followed the permitting process or are not moving toward funding readiness.

For program planning purposes, the fundable projects are further identified as "R – ready for loan" (indicating that the construction permit and environmental review have been completed), and "P – in planning."

The following categories of projects will be included for funding during SFY 2011 and are included on Chart 1:

Unfunded Prior Years' Section 212 Projects: These are loan requests remaining on the project priority list from previous years' IUPs. It is Iowa's intention to make CWSRF loans to these projects during SFY 2011 if they are ready for a binding loan commitment.

Segments of Previously Funded Section 212 Projects. State rules provide that subsequent segments of a project, which has previously received funding priority or assistance, be placed on the project priority list ahead of new projects. Segmented projects will be added to the SFY 2011 project priority list as received.

New Section 212 Projects. New applications for assistance during SFY 2011 will be added to the project priority list. Applications will be accepted on a continuous basis during SFY 2011 with quarterly updates completed as needed.

Supplemental Financing. Supplemental financing for projects listed in previously approved IUPs are added to the IUP as they are requested unless the additional funds will be used for improvements that would significantly change the scope of the project. Additional environmental review may be required. Supplemental loans will not be provided for changes that would lower the original score of the project to a point where the application is no longer competitive or is ineligible for funding.

Contingency Projects. Contingency projects are those that have not followed the permitting process or are not moving toward funding readiness. Projects can be moved from contingency to active status whenever they are determined to be in sync with the permitting process or have become active. Active projects can be moved to contingency status if it is determined that the project is not progressing in a timely manner.

Planning and Design Loans. Planning and design loans are provided at 0% interest for up to three years to cover the costs of preparing facility plans and project specifications. The loans will be rolled into CWSRF construction loans or repaid by another source of permanent financing.

ARRA Projects. Iowa's list of ARRA projects was published in a supplement to the SFY 2009 IUP and approved in May 2009. These projects had to be under contract or under construction, certified for ARRA funding, with a signed loan agreement by February 17, 2010. Disbursements for some of these projects may continue into SFY 2011.

FFY 2010 Funding. Green projects and disadvantaged communities' projects identified to receive loan forgiveness using the FFY 2010 capitalization grant will be identified in a future IUP update.

Plan for Nonpoint Source Set-Asides

Iowa authorizing legislation and state administrative rules allow the use of CWSRF funds for nonpoint source pollution control projects. Four set-asides for nonpoint source program assistance have been established which target areas of need allowed under federal guidance and identified in the state water quality management plan.

The table below outlines the current and proposed set-aside amounts planned for the four programs. Chart 2 (attached) also provides the set-aside funding amounts. These set-aside amounts may be amended based on need and the financial capacity of the CWSRF. Additional information on these programs is included in Section III of this IUP.

Program	Proposed SFY 2011 Set-Aside Amount
Onsite Wastewater Assistance Program (OSWAP)	\$1.5 million
Local Water Protection Program (LWPP)	\$8.0 million

Livestock Water Quality Facilities Program (LWQ)	\$10.0 million
General Nonpoint Source Program (GNS)	\$10.0 million
TOTAL	\$29.5 million

Plan for Use of Administrative Accounts

There are three distinct funding sources for CWSRF administrative expenses:

- The CWSRF administrative set-aside. Four percent of the cumulative amount of federal capitalization grants received may be used for program administration and is shown in Chart 3.
- Loan initiation fees. A 1% loan origination fee is charged on CWSRF loans. Under EPA rules, because Iowa's origination fees are financed through the loans, the proceeds are considered program income. Program income can only be used for the purposes of administering the CWSRF program or for making new loans.
- Loan servicing fees. A fee of 0.25% on principal is charged annually on CWSRF loans. Under EPA rules, only servicing fees charged on loans made above and beyond the amount of the capitalization grant and fees collected after the capitalization grant under which the loan was made has been closed are considered non-program income. Non-program income can be used to administer the program or for other water quality purposes.

Estimates of program and non-program income. Assuming that the CWSRF capitalization grants are kept open for one year, the following amounts are projected for the FFY 2010 and 2011 grants:

Origination fees (program income)	\$551,500
Servicing fees for one year (program income)	\$137,875
Servicing fees for 19 years (non-program income)	\$1,455,428

Program income. As of April 2009, there is approximately \$8.5 million in the fee account encompassing program income. A portion of these funds will be used in SFY 2011 for program administration, and the remainder will be reserved for future administrative expenses.

Non-Program Income. After expenses in SFY 2010, there is currently \$2.7 million available in funds considered non-program income. We propose the following uses for a portion of these funds during SFY 2011:

Purpose	Explanation	Amount
To provide funding and support for efforts to assist unsewered communities	Many rural communities in Iowa provide little or no wastewater treatment. Discharge of untreated or partially treated waste presents a significant human health risk and potentially degrades ground and surface water quality. Viable waste treatment solutions are difficult and costly, often exceeding the local capacity for planning, financing, and management. Regional utility management organizations (UMOs) are stepping up to fill this void and address issues of leadership, financial capacity, operations, and delivery of services. Four UMOs were funded in SFY 2007, five in SFY 2008, and six in SFY 2009. DNR renewed the six contracts in SFY 2010 for \$25,000 each. DNR plans to renew five of the contracts again in SFY 2011.	\$125,000
To update wastewater design standards	This will provide funding for coordination of design standards updates.	\$58,000

To analyze lagoon treatment effectiveness	The 2-cell lagoon study will gather information about the effectiveness of these small town systems in meeting water quality standards for ammonia and pathogens (E. coli bacteria). We plan to gather this information in both the spring and fall discharge seasons.	\$25,000
To support wastewater compliance activities	SRF non-program income will be used in place of state general fund dollars for five field office wastewater staff positions. The field offices will be doing inspections to ensure compliance with the NPDES permit, assisting permit holders with staying in compliance with their permit, investigating complaints from the public related to wastewater treatment and offering technical assistance to wastewater facility operators. Another task is working with unsewered communities to become properly sewerred.	\$576,525
To support the LiDAR project	LiDAR, which stands for Light Detection and Ranging, is a new technology that creates an interactive topographic map with elevation data accurate within eight inches. As a supplement to field surveys, LiDAR can be used for watershed planning and construction. It can also be used to evaluate alternative infrastructure options, for education and research purposes, and in engineering.	\$300,000
To provide construction permitting for non-SRF funded projects	This funding will replace state general funds for one staff engineer in the Wastewater Engineering section.	\$104,118
To fund an NPDES permit writer	This funding will replace state general funds for one permit writer in the National Pollution Discharge Elimination System (NPDES) section.	\$100,000
	TOTAL	\$1,288,643

III. INFORMATION ON THE CWSRF ACTIVITIES TO BE SUPPORTED

Allocation of Funds

Allocation of funds to eligible projects was based on a four-step process:

1. The amount of financial assistance needed for each application was estimated;
2. The sources and allowable uses of all CWSRF funds were identified; and
3. The CWSRF funds were allocated among the projects, consistent with the amount available and the financial assistance needed.
4. A designated amount was selected as reasonable and manageable for each set-aside.

Information pertinent to each CWSRF project is contained in Chart 1, pursuant to Section 606(c)(3) of the Clean Water Act.

Sources and Uses of Available CWSRF Funds

Appendix A to the Intended Use Plan illustrates potential sources and uses of funds in the CWSRF for SFY 2011. As shown, all pending loan requests and program administration needs can be funded. Appendix A will be updated quarterly as needed to provide an ongoing view of the financial plan for meeting loan requests during SFY 2011.

The Iowa CWSRF program uses its equity fund to originate loans. When the number of loans that have been made creates a need for additional funds, IFA issues bonds, backed by those CWSRF loans, and uses the bond proceeds to replenish the equity fund. The SRF program issued bonds in

December 2009 to reimburse the equity fund as well as for part of the FFY 2009 state match and for the FFY 2010 state match.

Section 212 Projects Program Policies

Loan Interest Rates. The interest rate for construction loans made from the CWSRF in SFY 2011 will be 3%. Interest rate for CWSRF planning and design loans will be 0% for up to three years.

In addition, interest rates for existing CWSRF loans that are at or beyond their 10-year point are reduced to 3%.

Loan Fees. A 1% origination fee is charged on the full loan amount for CWSRF construction loans. No origination fees will be charged on planning and design loans. A .25% servicing fee will be charged on construction loans.

Financing Term. The financing term will be up to 30 years. Current and new projects on the project priority list may request an extended term. The length of the term will be based on calculation of the average useful life of the entire project, to be determined by the applicant's consulting engineer and approved by DNR.

Maximum Financing. There is no maximum financing amount.

Project Readiness. Applicants cannot be offered assistance until they meet program requirements.

Funding Limitations. Pending loans identified in this IUP do not exceed funds obtainable for the CWSRF program. These estimates are based on the projections that, for projects that have completed program requirements and are ready for funding, only 30% of the loan amount will be disbursed this fiscal year. For projects that are currently in the planning phase but will be ready for funding during SFY 2011, it is projected that only 10% of total funds will be disbursed this fiscal year.

Administrative Costs of the CWSRF

Iowa intends to use CWSRF funds equivalent to 4% of the federal capitalization grant funds to pay the costs of administering the State Revolving Fund loan program. The amount available from the FFY 2010 cap grant equals approximately \$1,096,000. The Iowa SRF program did not take any administrative set-aside from the ARRA capitalization grant. The administrative set-aside of \$2,122,000 from the ARRA cap grant will be taken in SFY 2011.

Any unused administration commitments are reserved for use in future years as necessary should capitalization grants be reduced, or actual costs increase. We anticipate administrative costs of approximately \$3.8 million in SFY 2011 and will use program income from fees to supplement the 4% administrative set-aside if needed.

Nonpoint Source Set-Aside Programs

Four programs target several areas to help Iowans address nonpoint source pollution, including:

- The On-Site Wastewater Systems Assistance Program (OSWAP), providing loans to rural homeowners to replace inadequate septic systems. New systems are certified by county sanitarians and loans are made through participating lenders.
- The Local Water Protection (LWP) Program, addressing soil, sediment, and nutrient control practices on agricultural land. DNR contracts with the Iowa Department of Agriculture and

Land Stewardship, which operates the program through local Soil and Water Conservation Districts. Loans are made through participating lenders through a linked deposit arrangement.

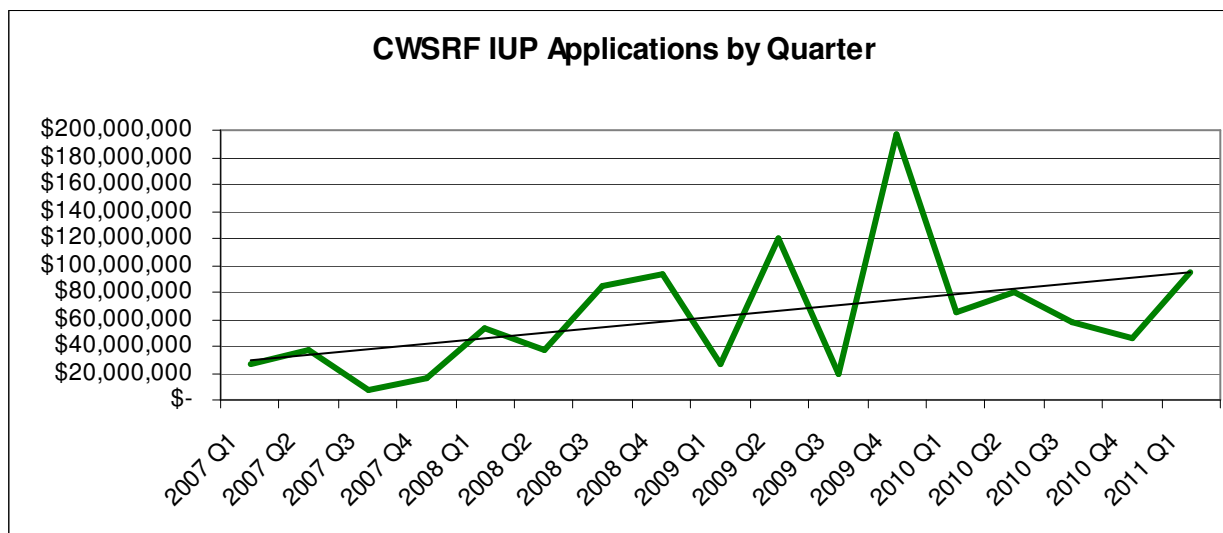
- The Livestock Water Quality Facilities (LWQ) Program, assisting livestock producers with manure management plans, structures, and equipment. Facilities with under 1,000 animal unit capacity are eligible. DNR contracts with the Iowa Department of Agriculture and Land Stewardship, which operates the program through local Soil and Water Conservation Districts. Loans are made through participating lenders through a linked deposit arrangement.
- The General Nonpoint Source (GNS) Program, for a wide variety of other water quality protection efforts. Projects include habitat and wetland restoration, urban storm water management, landfill closure, lake restoration, and watershed planning.

Nonpoint source set-asides total \$29.5 million, including new projects and carryover projects from SFY 2010.

Plan for Efficient and Timely Use of CWSRF Funds

In recent years, the CWSRF has been opened to new uses, its processes streamlined, and the marketing and education enhanced. These improvements have resulted in more efficient and timely use of the CWSRF.

As shown in the chart below, the trend since SFY 2007 has been upward and currently there are numerous projects in the pipeline moving toward loan commitments.



Water Quality Management Planning

A reserve for water quality management planning as required by Title VI of the Clean Water Act will be set aside from Iowa's Title VI allotments and granted to the state for this purpose separately from the CWSRF. This reserve does not appear in this IUP as it has been already deducted from Iowa's allotment and taken into account in projecting Iowa's available capitalization grant.

IV. ASSURANCES AND SPECIFIC PROPOSALS

Iowa will provide the necessary assurances and certifications according to the Operating Agreement between the State of Iowa and the U.S. EPA. Iowa's Operating Agreement was amended in April 2007.

V. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS

The following approach was used to develop Iowa's proposed distribution of CWSRF funds: (1) analysis of the priority of communities applying and financial assistance needed; (2) identification of the sources and spending limits of available funds; (3) allocation of funds among projects; (4) development of a payment schedule which will provide for making timely binding commitments to the projects selected for CWSRF assistance; and (5) development of a disbursement schedule to pay the project costs as incurred.

Priority of Communities and Financial Assistance Needed

Iowa law provides only for loan assistance. Additional subsidization required by the FFY10 capitalization grant will be through forgivable loans. The state's CWSRF rules identify the priority rating system used to establish priorities for loan assistance. Chart 1 is the state's Project Priority List.

Nonpoint Assistance Programs

Chart 2 (attached) includes set-asides for the Onsite Wastewater Assistance Program (OSWAP), Livestock Water Quality Facilities (LWQ), Local Water Protection (LWP) and General Nonpoint Source (GNS). These funds implement the intent of Iowa statute to use CWSRF funds for loan assistance to improve rural residential wastewater systems, to assist owners of existing animal feeding operations to meet state and federal requirements, for local water protection projects that will provide water quality improvement or protection and for general nonpoint source non-traditional projects that will provide water quality improvements or water quality protection. These systems are addressed as a need by Iowa's State Water Quality Management Plan. Individual loan applicants for all set-asides are not identified in this IUP. These programs will be operated as linked deposit or direct loan programs.

Allocation of Funds Among Projects

All projects listed in Chart 1 (attached) are eligible for assistance and may be funded from the CWSRF subject to available funds.

All projects scheduled for funding with Iowa's CWSRF will be reviewed for consistency with appropriate plans developed under sections' 205(j), 208, 303(e), 319 and 320 of the Clean Water Act, as amended. Evidence of this review and finding of consistency will be documented in each CWSRF project file. Should a project fail to meet this review criterion, it may be bypassed as allowed by State rules. Chart 1 provides for contingency projects, which may be considered for loan assistance as bypass projects according to state rules without formal amendment of this intended use plan.

VI. METHOD OF AMENDMENT OF THE INTENDED USE PLAN

This IUP will be followed by the State in administering CWSRF funds in SFY 2011. Federal and state law requires opportunity for public participation in the development of the IUP. Any revisions of the goals, policies and method of distribution of funds, must be addressed by a revision of the IUP, including opportunity for public participation. Updates to the IUP to add projects to the priority list, to make program changes, or to adjust dollar amounts in set-asides, will be made quarterly as needed.

Minor adjustments in funding schedules, loan amounts and use of bypass provisions including funding of projects on contingency status are allowed by the procedures of this IUP and state rules for administration of the CWSRF without public notification.

VII. PUBLIC REVIEW AND COMMENT

A public meeting to allow input to Iowa's SFY 2011 IUP and Project Priority List will be held May 6, 2010, 10:00 a.m., at the DNR Water Supply office, 401 SW 7th Street, Suite M, Des Moines. This meeting was announced in a notice provided to stakeholder organizations representing city officials, consulting engineers, county governments, councils of government, area planning agencies, US EPA Region VII and other groups which might have an interest. Notice of this meeting was published in the Des Moines Register, a statewide newspaper, on April 1, 2010. The public comment period will be open until May 13, 2010.

CHARTS

Charts 1-3 are included in a separate, sortable Excel file.

APPENDIX A

Iowa CWSRF State Fiscal Year 2011 1Q
Estimated Funding Sources and Funding Uses
As of 4/21/10

Funding Sources

Funds Available in Equity and Loan Accounts	\$76,331,000	*
2009 ARRA Grant - Section 212 Loans	\$15,463,000	*
2009 ARRA Grant - Section 212 Forgivable Loans	\$15,921,000	*
2009 ARRA Grant - Green Projects Loans	\$8,656,000	*
2009 ARRA Grant - Green Projects Forgivable Loans	\$2,043,000	*
State Match for FFY 2009 Capitalization Grant (partial - Series 2009A - 12/2/09)	\$262,000	*
FFY 2010 Capitalization Grant	\$27,575,000	
State Match for FFY 2010 Capitalization Grant (Series 2009A - 12/2/09)	\$5,515,000	
Issuance of Leveraged Bonds (Series 2010A - Estimated 12/10)	\$68,917,000	
Equity Fund Interest Earnings during SFY 2011	\$66,000	
Net Repayments on Un-Pledged Loans during SFY 2011	\$2,555,000	
Funds Released from Indentures to Equity Fund (available for loans)	\$12,447,000	
Total Funding Sources	\$235,751,000	

Funding Uses

Undisbursed Amounts Committed to Existing Loans (60% disbursement rate)	\$70,189,000
Section 212 Project Requests (FNSI issued; 30% disbursement rate)**	\$71,971,000
Section 212 Project Requests (FNSI not issued; 10% disbursement rate)**	\$43,384,000
Planning & Design Requests (50% disbursement rate)	\$6,820,000
Green Projects - ARRA	\$10,669,000
Non-point Source Program Assistance	\$29,500,000
Program Administration From FFY 2010 Capitalization Grant	\$1,096,000
Program Administration From ARRA Capitalization Grant	\$2,122,000
Total Funding Uses	\$235,751,000

* Funds Available for disbursements as of 4/21/10

** Loan disbursement rates are estimated based on previous experience with project pace. For projects that currently have not had a Finding of No Significant Impact issued, it is expected that up to 10% of the total project amounts may be disbursed during SFY 2010 once a FNSI has been cleared, construction permit issued, and binding loan commitment signed. For those projects with FNSI clearance, the disbursement rate is estimated at 30% of the loan request amount.

APPENDIX B-1

PROCEDURES TO DETERMINE SECTION 212 PROJECT PRIORITY LIST

Project rankings were determined by the following procedures:

Cost eligibility of projects was determined as per 567 IAC 92.7(6)(455B). Applications were evaluated using the priority point system in 567 IAC 91.8(455B).

The final project priority list for a fiscal year's project pool is compiled in the following manner: subsequent segments of projects funded by CWSRF loan programs of previous years will be ranked at the top; projects ranked in the current year application group will then be added.

Projects on the project priority list will be given contingency status should the total amount of needs exceed the year's CWSRF staff resources capability and loan funding or if the projects have not met the fundable criteria described in 567 IAC 92.6(2)(455B). Projects will be funded from the top down in the ranking order of the project priority list. Projects are ranked similarly in the contingency project list. The top project in the contingency list can be moved to the funding list when funds are available or it has met the fundable criteria. Funds can be made available due to a number of reasons including project bypasses, loan application withdrawal of other projects, reduction in loan amount requests, an increase in available funds, or progress in meeting program requirements.

APPENDIX B-2

CRITERIA TO DETERMINE PROJECT PRIORITY LIST

In April 2010 Iowa adopted revised rules for the Clean Water State Revolving Fund (CWSRF). 567 IAC 91 provides the criteria for scoring and ranking CWSRF projects. The new system uses an integrated approach which allows comparison of Section 212 POTW (publicly owned wastewater treatment works) projects as well as nonpoint source pollution control projects. The goal of the new system is gain the highest water quality benefits for the funding available.

Currently Iowa is able to fund all projects that are eligible, but the priority system will be available to use in the case that demand for CWSRF loans exceeds supply of funds.

Section 212 POTW Projects

The rating criteria consider the use classification of the receiving waters, water quality of the receiving waters, groundwater protection, project type, project purpose, and a tiebreaker; defined in 567 IAC 91.8 (455B). Priority ranking for the projects shall be based on the total points awarded for all the categories; the greater the total number of points, the higher the ranking. The ranking will be done at the time the IUP is prepared and will not be updated during the year. The tie breaker category will be used when necessary.

Nonpoint Source Set-Aside Programs

The rating criteria consider the use classification of the receiving waters, water quality of the receiving waters, groundwater protection, project type, project purpose, and a tiebreaker; defined in 567 IAC 91.8 (455B). Priority ranking for the projects is based on the total points awarded for all the categories; the greater the total number of points, the higher the ranking. The priority system for nonpoint source will not be implemented until 90 percent of a nonpoint source set-aside is allocated and no additional funds are available. If that occurs, ranking will be done at the time that a new project application is received.



DRINKING WATER STATE REVOLVING FUND INTENDED USE PLAN

**State Fiscal Year 2011
July 1, 2010 – June 30, 2011**

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CHARTS

Chart 1	DWSRF SFY 2011 Project Priority List
Chart 2	DWSRF Set-Asides

APPENDICES

Appendix A	DWSRF Sources and Uses
Appendix B	Procedures to Determine Point Source Project Priority List



DRINKING WATER STATE REVOLVING FUND INTENDED USE PLAN

State Fiscal Year 2011
July 1, 2010 – June 30, 2011

I. INTRODUCTION

The Drinking Water State Revolving Fund (DWSRF) is Iowa's primary tool for funding improvements to public water systems. Since 2000, the Iowa DWSRF has committed more than \$400 million in below-market rate loan funds to meet Iowa's water system infrastructure needs.

This Intended Use Plan (IUP) outlines progress made to date and plans for operating and managing the DWSRF during State Fiscal Year 2011.

II. STATE FISCAL YEAR 2011 PLAN OF ACTION

This plan is based on anticipated use of new and revolved funds available in the DWSRF for funding construction of treatment plants or improvements to existing facilities, water storage facilities, wells, and source water protection efforts.

The SFY 2011 Plan of Action covers the following areas:

- DWSRF goals and objectives;
- Current and projected financial capacity of the DWSRF;
- Financial management strategies;
- Plan for the SFY 2011 project priority list;
- Plan for use of DWSRF set-aside funds; and
- Plan for use of administrative accounts.

DWSRF Goals and Objectives

The primary long-term goal of the Iowa DWSRF is to support the protection of public health through a perpetual program of financial assistance for the purposes of ensuring the provision of an adequate quantity of safe drinking water to consumers of public water supplies, protecting source water for drinking water systems, and ensuring the long-term viability of existing and proposed water systems.

The SFY 2011 short-term goals and objectives are as follows:

- **Goal:** Develop a list of green projects for FFY 2010 capitalization grant funding. **Objectives:** *During SFY 2011, SRF staff will solicit energy efficiency, water efficiency, green storm water infrastructure, or other environmentally innovative projects. Staff will review projects for eligibility and assist in the development of business cases as needed. Staff will determine amount of additional subsidization to be applied to green projects.*

- **Goal:** Identify projects to which to apply additional subsidization available in FFY 2010 capitalization grant funding. **Objective:** *During SFY 2011 SRF staff will evaluate projects for readiness and disadvantaged community status.*
- **Goal:** Assist in readying SRF projects for IJOBS grant funding. **Objective:** *Projects receiving state IJOBS grants must be eligible for and receive an SRF loan. We will work with the IJOBS program to take projects through the SRF process for funding readiness.*
- **Goal:** Ensure that borrowers are able to provide safe drinking water at a reasonable cost for the foreseeable future. **Objectives:** *During SFY 2011, viability assessments will be completed by each applicant and reviewed by SRF staff prior to signing of the loan agreement. Systems determined nonviable will be provided with an enforceable compliance schedule listing all actions that must be completed to return the system to viable status. Extended term financing will be offered to disadvantaged communities. SRF staff will coordinate efforts with other funders such as the Community Development Block Grant program. We will continue to educate and inform public water supplies, engineering consultants, and financial advisors on the financing savings available by using the DWSRF.*
- **Goal:** Provide below-market rate financial assistance while assuring the perpetual nature of the program. **Objective:** *During SFY 2011, criteria in program rules will be applied to set interest rates in the IUP, including cost of funds to the SRF, availability of other SRF funds, prevailing market interest rates of comparable non-SRF loans, and long-term SRF viability.*
- **Goal:** Apply program requirements that are simple and understandable and do not add unnecessary burdens to applicants or recipients. **Objectives:** *During SFY 2011, SRF staff will continue to provide environmental review services, conduct project meetings, provide technical assistance for meeting federal requirements, and update the water supply manual and web-site as needed. In addition, SRF staff will assist borrowers with Davis-Bacon compliance.*
- **Goal:** Commit loan funds to fully fund as many recipients as possible in accordance with the state priority ranking system, the IUP, staff resources, and available funding. **Objectives:** *During SFY 2011, quarterly updates to the IUP will be prepared to add projects and update program financial information.*
- **Goal:** Manage the DWSRF to maximize its use and impact through sound financial management. **Objective:** *During SFY 2011 SRF staff and financial advisors will continue to conduct financial analyses and develop innovative approaches to financial management.*
- **Goal:** Maintain mechanisms for funding the on-going administration of the program if federal funding is eliminated or reduced. **Objectives:** *During SFY 2011 initiation and servicing fees will be collected on DWSRF loans for deposit to administrative accounts. SRF staff will develop short and long-term plans for administrative budgets.*

Current and Projected Financial Capacity of the DWSRF

Appendix A, the Estimated Sources and Uses table, shows that available funds are sufficient to fund current requests.

SRF staff have analyzed the future financial capacity of the DWSRF. Using relatively conservative assumptions, it is projected that the DWSRF could loan an average of \$100 million per year over the next 10 years, or a total of \$1 billion.

Financial Management Strategies

The sources of funds for this IUP include the FFY 2009 federal capitalization grant fund received and matched. The state match for the FFY 2009 and FFY 2010 capitalization grants was provided with the bond issue in December 2009. The amount of the FFY 2009 cap grant is \$10,148,000, with state match of \$2,030,000. The FFY 2010 cap grant amount is \$23,169,000, so the state match will be \$4,633,800. Iowa's SRF uses the "group of projects" method for drawing federal capitalization grant funds.

SFY 2011 Project Priority List

The management of the DWSRF program, including development of a project priority list for financing assistance, was developed according to Part 567 of the Iowa Administrative Code (IAC), Chapter 44. This amended IUP indicates the intent to provide funds to projects ranked in priority order according to scoring criteria contained in Chapter 44 of the IAC. Chart 1 constitutes the State's project priority list.

In the event that projects identified for funding in the IUP do not attain readiness for a loan commitment by projected dates, these delayed projects may be bypassed. Other projects may be added to Chart 1 to be funded based on the State's implementation rules for the DWSRF program (567 IAC 44). Applications that are in excess of available DWSRF assistance or that are unable to enter binding commitments within one year may be placed on the Contingency status according to priority.

Projects will be funded as ranked on the project priority list. Adjustment to the list of fundable projects will be made, if necessary, to assure that at least 15% of the project funds are available to systems serving fewer than 10,000 persons as specified in Section 1452(a) (2) of the Act. Financing may be provided for up to 100% of project costs if the costs are eligible for funding based on engineering, environmental, and financial review and project readiness to proceed as described above.

The priority list has two major categories of projects: fundable and contingency. Fundable projects are defined as those are likely to be ready for a loan during the current fiscal year. Contingency projects are those that will not be ready for a loan during the current fiscal year.

For program planning purposes, the fundable projects are further identified as "R – ready for loan" (indicating that the construction permit and environmental review have been completed), and "P – in planning."

The following categories of projects will be included for funding during SFY 2011:

Unfunded Prior Years' Projects. All projects from prior years that have not entered into a binding commitment are included in this IUP.

Segments of Previously Funded Projects. State rules provide that subsequent segments of a project which has previously received funding priority or assistance be placed on the project priority list with the original project score.

New Projects. New applications for assistance during SFY 2011 will be added to the project priority list. Applications will be accepted on a continuous basis and quarterly updates completed as needed.

Supplemental Financing. Supplemental financing for projects listed in previously approved IUPs are added to the IUP as they are requested unless the additional funds will be used for improvements that would significantly change the scope of the project. Additional environmental review may be

required. Supplemental loans will not be provided for changes that would lower the original score of the project to a point where the application is no longer competitive or is ineligible for funding.

Contingency Projects. Projects on contingency status have indicated they do not expect to enter into binding commitments during FY 2011. These projects may be moved to fundable status if their schedules indicate they will require funding during FY 2011.

Planning and Design Loans. Requests for planning and design loans are listed on Chart 1 but have not been assigned priority points.

Source Water Protection Loans. Applications from eligible public water supplies with approved SWP plans will be added when the proposed project is a component of the SWP plan.

ARRA Projects. Iowa's list of ARRA projects was published in a supplement to the SFY 2009 IUP and approved in May 2009. These projects had to be under contract or under construction, certified for ARRA funding, with a signed loan agreement by February 17, 2010. Disbursements for some of these projects may continue into SFY 2011.

FFY 2010 Funding. Green projects and disadvantaged communities' projects identified to receive loan forgiveness using the FFY 2010 capitalization grant will be identified in a future IUP update.

III. INFORMATION ON THE DWSRF ACTIVITIES TO BE SUPPORTED

Allocation of Funds

Allocation of funds to eligible projects is based on a three-step process:

1. The amount of financial assistance needed for each application is estimated;
2. The sources and spending limits for all DWSRF funds are identified; and
3. The DWSRF funds are allocated among the projects, consistent with the financial assistance needed.

Information pertinent to each DWSRF project is contained in Chart 1.

Sources and Uses of Available DWSRF Funds

Appendix A to this IUP illustrates the potential sources and uses of funds in the DWSRF for SFY 2011. The project needs total in Chart 1 reflects all unfunded needs. All pending requests and program administration needs can be met in SFY 2011.

The Iowa DWSRF program uses its equity fund to originate loans. When the number of loans that have been made creates a need for additional funds, IFA issues bonds, backed by those DWSRF loans, and uses the bond proceeds to replenish the equity fund. The SRF program issued bonds to reimburse the equity fund as well as the state match for the FFY 2009 and 2010 capitalization grants in December 2009.

DWSRF Loan Policies

Loan Interest Rate. The interest rate for DWSRF construction loans will be 3%. Interest rates for DWSRF planning and design loans will be 0% for up to three years. Interest rates for source water protection loans, which come out of the Other Authorized Uses set-aside, will be 0% for up to 20 years.

Loan Fees. A 1% origination fee will be charged on the full loan amount for DWSRF construction and source water protection loans. No origination fees will be charged on planning and design loans. A 0.25% servicing fee will be charged on construction and source water protection loans.

Maximum Financing. There is no maximum financing amount.

Project Readiness. Applicants cannot be offered assistance until they meet program requirements.

Funding Limitations. All program requests for disbursements from DWSRF projects can be met. These estimates are based on the projections that, for projects that have completed program requirements and are ready for funding, only 35% of the loan amount will be disbursed this fiscal year. For projects that are currently in the planning phase but will be ready for funding during SFY 2010, it is projected that only 20% of total funds will be disbursed to the project this fiscal year.

Disadvantaged Communities. The Safe Drinking Water Act Amendments of 1996 allow states to provide an extended term for a loan to a disadvantaged community as long as the extended term does not terminate more than 30 years after project completion and the loan term does not exceed the expected design life of the project. The Act defines a disadvantaged community as the service area of a public water system that meets affordability criteria established after public review and comment.

Community public water systems serving populations that contain a majority (51 percent) of Low to Moderate Income (LMI) persons will be considered disadvantaged for the purpose of the DWSRF loan program. Low to moderate income is defined as 80 percent of the median household income in the county or state (whichever is higher) using the most recent federal census or income survey data. Privately owned community public water systems will be considered eligible for disadvantaged community status if an income survey indicates that the service area meets the LMI criteria. Rural water systems will be considered eligible for disadvantaged community status if an income survey indicates that the area benefiting from the improvements meets the LMI criteria. Income surveys must be done according to the protocol specified by the Community Development Block Grant program.

Loans to disadvantaged communities are limited to public water supply infrastructure improvements. Projects eligible for funding from set-asides, such as source water protection projects, are not eligible in accordance with federal program requirements.

Only those portions of a project that have a design life or life cycle of at least 30 years are eligible for repayment schedules exceeding 20 years. The department will use the table of estimated useful lives from EPA's publication 816-R-03-016 to determine the length of the loan for eligible expenses. The consulting engineer for the project will be required to separate and itemize costs so that a weighted maturity may be calculated for loan repayment. The list of itemized costs and expected useful lives will be required prior to signing of the loan agreement.

If a project is not able to enter into a binding commitment in a timely manner, it may be replaced with the next disadvantaged community project that is ready to proceed.

Intended Use of Set-Asides

States are allowed to take or reserve up to 31% of each federal capitalization grant for a number of activities that enhance the technical, financial, and managerial capacity of public water systems and protect sources of drinking water. The use of the set-asides as well as the loan program is intended to carry out Iowa's goal of ensuring that the drinking water received by 92% of the population served by community water systems meets all applicable health-based drinking water standards through approaches including effective treatment and source water protection.

The amounts are subject to approval by EPA of program workplans. DNR is currently working under the SFY 2010 workplans. The SFY 2011 workplans are being drafted and must be submitted to EPA for approval. In this IUP, general work efforts are outlined, for update as needed later in the year. Iowa plans to take or reserve the allowed amount in each set-aside.

There are four set-asides, including:

- Small System Technical Assistance (2% of capitalization grants)
- DWSRF Administration (4%)
- State Program Management (10%), requires a 1:1 match with state funds
- Other Authorized Uses (15%, with no more than 10% to any one activity)

DNR has two options for addressing the amounts available each year in set-asides. Set-aside funds may be reserved for future use, in which case they would be deducted from a future capitalization grant when they are ready to be taken. Funds that are taken from an available capitalization grant must be applied to planned work efforts approved by EPA.

In recent years, DNR has been fully using the set-asides and drawing upon reserved funds due to budget needs for programs and efforts required by EPA that are critical for ensuring public health. Once the reserved amounts are expended, the amounts available for each set-aside will be limited to the percentage allowed out of each capitalization grant. The Other Authorized Uses set-aside cannot be reserved.

DWSRF Program Administration Set-Aside. Iowa intends to take this set-aside to pay the costs of administering the State Revolving Fund loan program. Among the uses for the set-aside are:

- Portfolio management, debt issuance, and financial, management, and legal consulting fees;
- Loan underwriting;
- Project review and prioritization;
- Project management;
- Environmental review services;
- Technical assistance to borrowers;
- Development of water supply engineering design standards;
- Database development and implementation; and
- Program marketing and coordination.

The budget for SFY 2010 is \$1.5 million. Unused commitments are reserved for use in future years as necessary.

Small System Technical Assistance Set-Aside. Iowa intends to use DWSRF funds equivalent to 2% of the federal capitalization grant funds to provide technical assistance to public water supplies serving populations of less than 10,000.

Funds from this set-aside will be used this year to provide technical assistance through the issuance of operation permits, monitoring reminders, and assistance for consumer confidence reporting for public water systems serving populations of less than 10,000.

The budget for SFY 2010 is \$289,500. Unused commitments are reserved for use in future years for DNR staff and other purposes as necessary.

State Program Support Set-Aside. The primary uses of this set-aside are to assist with the administration of the Public Water Supply Supervision program, to review engineering documents for non-DWSRF construction projects, to determine viability for new systems, and to provide operating permits for public water supplies serving at least 10,000 persons.

Other uses during SFY 2010 include:

- Completing sanitary surveys with viability assessments and providing education and technical assistance to medium and large-sized public water supplies; and
- Supporting the SDWIS database and other information technology systems.

The budget for SFY 2010 is \$1.8 million. Fifty percent of this amount will be funded from the capitalization grant and the remaining 50% will be funded from State sources. Unused commitments are reserved for use in future years for DNR staff and other purposes as needed.

Other Authorized Activities Set-Aside. The two primary uses of this set-aside in SFY 2010 and SFY 2011 will be capacity development and source water protection.

Funds are budgeted for efforts related to developing technical, managerial, and financial capacity for Iowa's public water supplies, including:

- Completion of sanitary surveys with viability assessments;
- Provision of technical assistance related to capacity development through the area wide optimization program (AWOP);
- Contracts with five counties to complete sanitary surveys;
- Provision of performance based training for the AWOP program; and
- Contractor assistance with capacity development (viability assessment).

The SWP budget is managed by the DNR Watershed Improvement section, which includes the SWP coordinator position. Activities for SFY 2010 include:

- Updating SWP Phase I reports for priority water supplies;
- Initiating up to four Phase 2 plans;
- Developing Phase 2 criteria through SWP Technical Advisory Committee;
- Providing mini-grants to assist community water supplies (CWSs) to implement SWP practices;
- Providing SWP raw water monitoring for up to eight priority CWSs;
- Providing SWP groundwater investigation of priority CWSs (up to eight additional groundwater investigations);
- Responding to priority CWS' requests for SWP plan development assistance;
- Contracting with state or federal agencies at local level to assist CWSs in SWP activities; and
- Continuing operation of SWP DB Tracker.

The estimated budget for SFY 2010 and SFY 2011 is approximately \$5.0 million.

One of the uses of this set-aside is for SWP loans. It is proposed in this IUP to set the interest rate for SWP loans at 0%.

Plan for Use of Administrative Accounts

There are three distinct funding sources for DWSRF administrative expenses:

- The DWSRF administrative set-aside. Four percent of the cumulative amount of federal capitalization grants received may be used for program administration as discussed in the set-aside section above.
- Loan initiation fees. A 1% loan origination fee is charged on DWSRF loans. Under EPA rules, because Iowa's origination fees are financed through the loans, the proceeds are considered program income. Program income can only be used for the purposes of administering the DWSRF program or for making new loans.
- Loan servicing fees. A fee of 0.25% on principal is charged annually on DWSRF loans. Under EPA rules, only servicing fees charged on loans made above and beyond the amount of the capitalization grant and fees collected after the capitalization grant under which the loan was made has been closed are considered non-program income. Non-program income can be used to administer the program or for other safe drinking water purposes.

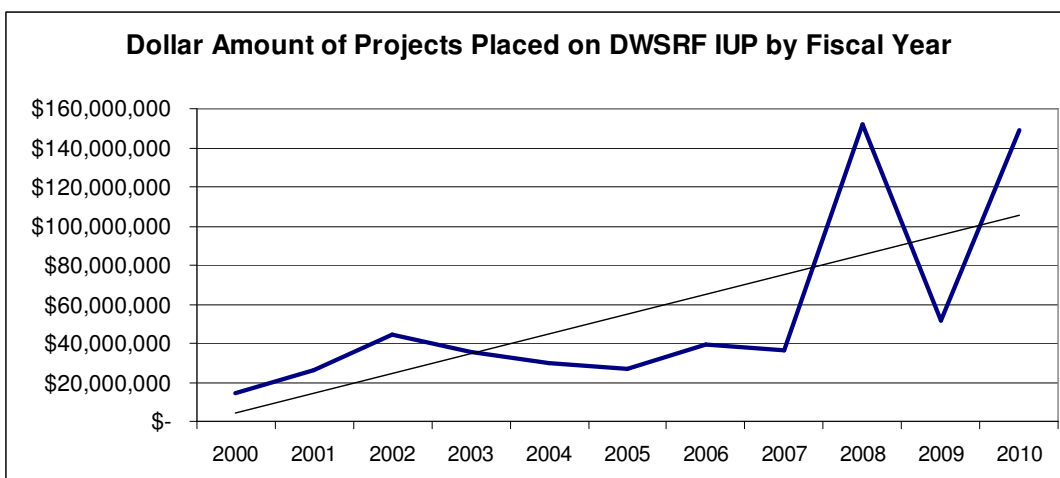
Estimates of program and non-program income. Assuming that the DWSRF capitalization grants are kept open for two years, the following amounts are projected for loans made under the FFY 2010 and 2011 grants:

Origination fees (program income)	\$463,380
Servicing fees for two years (program income)	\$227,488
Servicing fees for 18 years (non-program income)	\$1,111,250

DWSRF non-program income may be used in SFY 2011 to provide part of the required state match for the State Program Management set-aside.

Plan for Efficient and Timely Use of DWSRF Funds

In recent years, the processes of the DWSRF have been streamlined, and the marketing and education enhanced. These improvements have resulted in more efficient and timely use of the DWSRF. As shown in the chart below, the trend since SFY 2007 has been upward and currently there are numerous projects in the pipeline moving toward loan commitments.



IV. ASSURANCES AND SPECIFIC PROPOSALS

Iowa will provide the necessary assurances and certifications according to the Operating Agreement between the State of Iowa and the U.S. EPA. Iowa's Operating Agreement was amended in April 2007.

V. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS

The following approach was used to develop Iowa's proposed distribution of DWSRF funds: (1) analysis of the priority of communities applying and financial assistance needed; (2) identification of the sources and spending limits of available funds; (3) allocation of funds among projects; (4) development of a payment schedule which will provide for making timely binding commitments to the projects selected for DWSRF assistance; and (5) development of a disbursement schedule to pay the project costs as incurred.

Priority of Communities and Financial Assistance Needed

Iowa law provides only for loan assistance. Additional subsidization required by the FFY10 capitalization grant will be through forgivable loans. The state's DWSRF rules identify the priority rating system used to establish priorities for financial assistance. Chart 1 is the state's Project Priority List.

Projects are considered eligible for financial assistance for all planning and project costs providing the project is on the project list of an approved IUP.

Allocation of Funds among Projects

All projects listed in Chart 1 are eligible for assistance and may be funded from the DWSRF subject to available funds.

All projects scheduled for funding with Iowa's DWSRF will be reviewed for consistency with the Safe Drinking Water Act, as amended. Should a project fail to meet this review criterion, it may be bypassed or deleted from the funding list. Contingency projects may be considered for assistance as bypass projects according to state rules without formal amendment of this IUP. Projects may be added to Chart 1 in priority order as applications are received.

VI. METHOD OF AMENDMENT OF THE INTENDED USE PLAN

The State will follow this IUP in administering DWSRF funds in FY 2011. The IUP must be subjected to public review and comment. Any revisions of the goals, policies and method of distribution of funds must be addressed by a revision of the IUP, including public participation. Minor adjustments in funding schedules, loan amounts, and use of bypass provisions including funding of projects on the contingency list are allowed by the procedures of this IUP and state rules for administration of the DWSRF without public notification. Adjustments to Chart 1 to utilize actual funds available to the DWSRF for FY 2011 will be considered minor and only affected applicants will be notified. Public notice of amendments will be made if municipalities are added to or removed from Chart 1.

VII. PUBLIC REVIEW AND COMMENT

A public meeting to allow input to Iowa's SFY 2011 IUP and Project Priority List will be held May 6, 2010, 10:00 a.m., at the DNR Water Supply office, 401 SW 7th Street, Suite M, Des Moines. This

meeting was announced in a notice provided to stakeholder organizations representing city officials, consulting engineers, county governments, councils of government, area planning agencies, US EPA Region VII and other groups which might have an interest. Notice of this meeting was published in the Des Moines Register, a statewide newspaper, on April 1, 2010. The public comment period will be open until May 13, 2010.

CHARTS

Charts 1-2 are included in a separate, sortable Excel file.

APPENDIX A

Iowa DWSRF State Fiscal Year 2011, 1Q
Estimated Funding Sources and Funding Uses
As of 4/21/10

Funding Sources for Loans

Funds Available in Equity and Loan Accounts	\$32,238,000	*
2009 ARRA Grant - Loans	\$2,484,000	*
2009 ARRA Grant - Forgivable Loans	\$4,487,000	*
2009 ARRA Grant - Green Projects Loans	\$2,923,000	*
2009 ARRA Grant - Green Projects Forgivable Loans	\$1,805,000	*
FFY 2009 Capitalization Grant	\$5,980,000	*
State Match for FFY 2009 Capitalization Grant (Series 2009A - 12/2/2009)	\$961,000	*
FFY 2010 Capitalization Grant available for loans	\$15,060,000	
State Match for FFY 2010 Capitalization Grant (Series 2009A - 12/2/2009)	\$4,634,000	
Issuance of Leveraged Bonds (Series 2010A - Estimated 12/10)	\$37,939,000	
Equity Fund Interest Earnings during SFY 2011	\$28,000	
Net Repayments on Un-Pledged Loans during SFY 2011	\$1,622,000	
Funds Released from Indentures to Equity Fund (available for loans)	\$6,253,000	
Total Funding Sources for Loans	\$116,414,000	

Funding Uses for Loans

Undisbursed Amounts Committed to Existing Loans (75% disbursement rate)	\$53,010,000
Project Requests (FNSI issued; 35% disbursement rate)	\$20,906,000
Project Requests (FNSI not issued; 20% disbursement rate)	\$33,516,000
Planning & Design Requests (50% disbursement rate)	\$4,254,000
Green Projects - ARRA	\$4,728,000
Total Funding Uses for Loans	\$116,414,000

* Funds Available for disbursements as of 4/21/10

** Loan disbursement rates are estimated based on previous experience with project pace. For projects that currently have not had a Finding of No Significant Impact issued, it is expected that up to 20% of the total project amounts may be disbursed during SFY 2010 once a FNSI has been cleared, construction permit issued, and binding loan commitment signed. For those projects with FNSI clearance, the disbursement rate is estimated at 35% of the loan request amount.

Funding Sources for Set Asides

Available Balance under Existing Capitalization Grants for set asides:

Administration	\$276,000
Small Systems Technical Assistance	\$136,000
State Program	\$1,017,000
Other Authorized Activities	\$2,850,000

Total Funding Sources for Loans	<u>\$4,279,000</u>
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Funding Uses for Set Asides

Set Asides:	Administration	\$276,000
	Small Systems Technical Assistance	\$136,000
	State Program	\$1,017,000
	Other Authorized Activities	\$2,850,000

Total Uses for Set Asides	<u>\$4,279,000</u>
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APPENDIX B

PROCEDURES TO DETERMINE PROJECT PRIORITY LIST

Project rankings were determined by the following procedures:

- Eligibility of applications were determined by needs criteria identified in IAC 567—44.7(8). In general, most water source, treatment and distribution system improvements are considered eligible.
- Project applications received during the FY 2011 application period were considered for funding in FY 2011; if not funded by the end of FY 2011, these projects will be moved to the FY 2012 project priority list.
- The priority ranking is a total score developed using the scoring criteria listed in IAC 567—44.7(8). Points may be gained in each of five categories: Water Quality and Human Health Risk-Related Criteria (60 point maximum), Infrastructure and Engineering-Related Improvement Criteria (35 point maximum), Affordability Criteria (10 point maximum), Special Category Improvements (15 point maximum), and IDNR Adjustment Factor for Population (10 points). The combined score provides a numerical measure to rank each project within its pool. A project with a larger number receives higher priority.
- The final project priority list for a fiscal year's project pool is compiled in the following manner: Subsequent segments of projects funded by DWSRF loan programs of previous years will retain their original score and be added to the list of the current year's applications.
- Loan-eligible projects submitted will be placed on the IUP each calendar quarter. If the project is anticipated to proceed during FY 2011, the project will be added to the project priority list and the list will be made available for public comment at the end of each calendar quarter in which one or more projects are added to the list.
- Projects on the project priority list will be moved to contingency status if the total amount of needs exceeds the year's DWSRF staff resources capability and loan funding or if it is known that the project will be unable to be funded during FY 2011. Projects will be funded from the top down in the ranking order of the project priority list with consideration given to readiness to proceed. Projects are ranked similarly in the contingency project list. Projects on contingency status can be moved to the funding list when funds are available or when the project is ready to proceed. Funds can be made available due to a number of reasons including project bypasses, loan application withdrawal of other projects, reduction in loan amount requests, or an increase in available funds.